

Weekly Macroeconomic Review

June 1, 2010

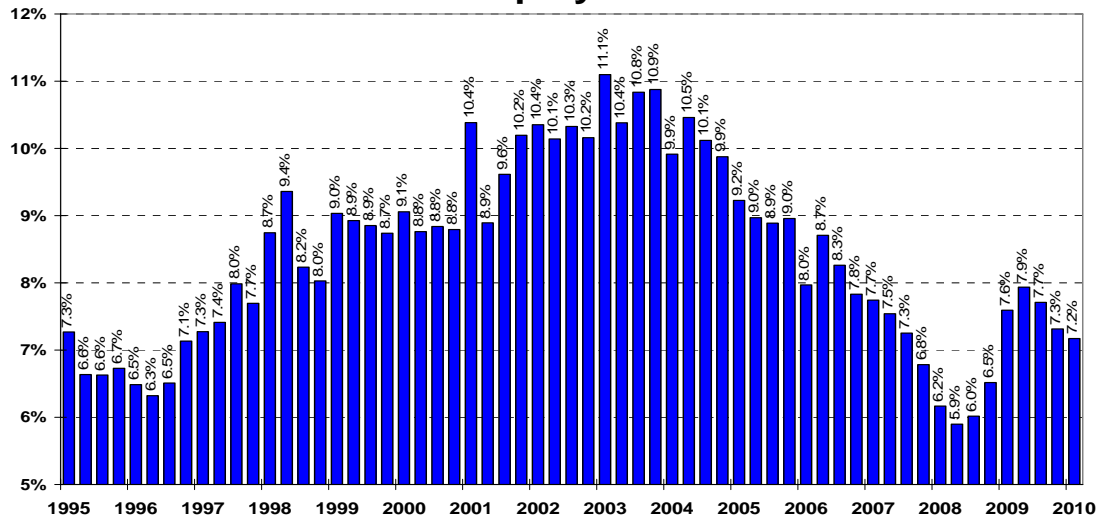
	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.4% in May 0.2% in June
Future cumulative inflation – next 12 CPIs (through March 2011 CPI)		2.7%
Inflation through July 2011 CPI (average annual rate)	2.9%	3.4%
Bank of Israel interest rate, 6 months ahead	2.00% (up 0.50)	2.25%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.03% (up 0.22)	5.10%
Yield on US Treasury 10-Year bond, 6 months ahead	3.52% (up 0.22)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.91 (up 0.3%)	NIS 3.88 (down 0.5%)

Israel

The shekel continued to weaken over the last week, by 2 percent against the dollar and by 1 percent against the euro, due to factors including the entanglement during the action taken to stop the flotilla of ships to Gaza. In our opinion, the probability of appreciation of the shekel in the coming months is greater than the probability of depreciation.

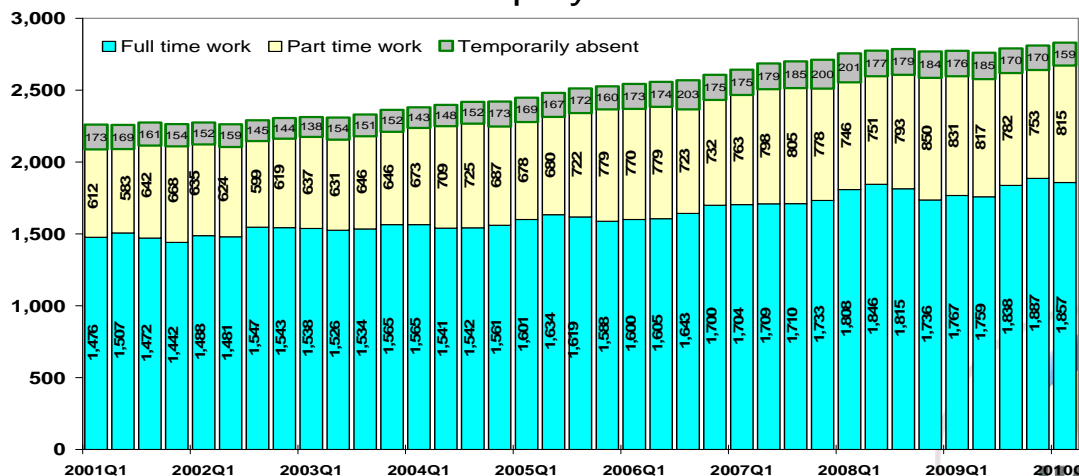
According to data from the manpower survey for the first quarter of 2010, the number of employed Israelis grew by 0.2 percent in the first quarter of 2010 and by 1.5 percent in the last four quarters. The workforce participation rate fell to 56.3 percent, from 56.6 percent in the preceding quarter. The unemployment rate decreased to 7.2 percent, versus 7.3 percent in the preceding quarter.

The Unemployment Rate

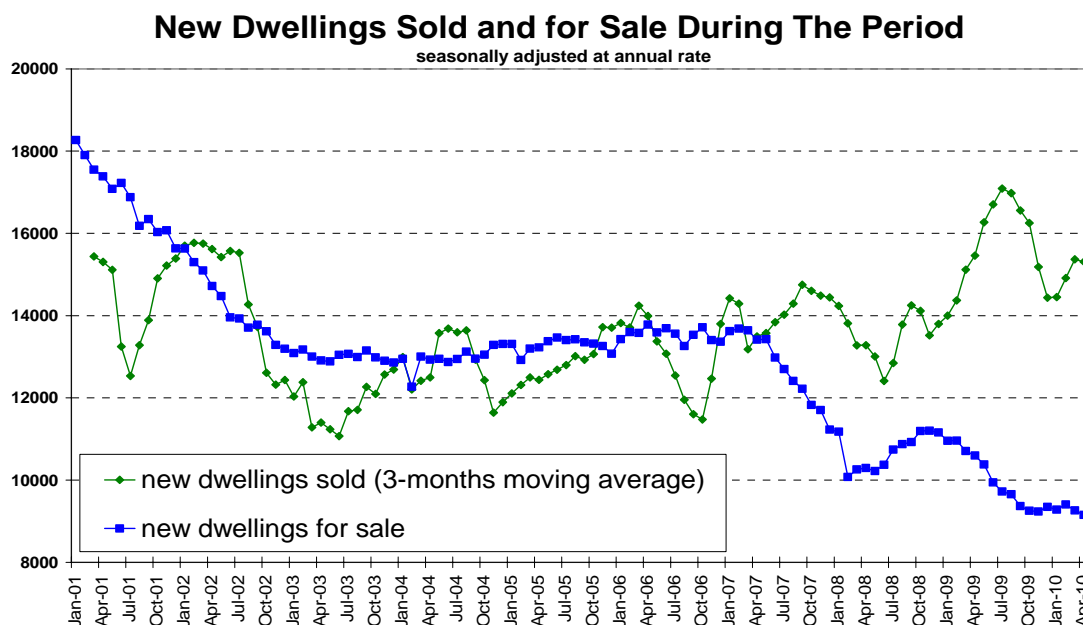


The slight decrease in the unemployment rate stems from a decrease in the participation rate, rather than a significant increase in the number of employed persons. In fact, an increase of 0.2 percent in employed persons is somewhat disappointing; the multi-year average quarterly increase is about 0.4 percent. Furthermore, the number of full-time employees declined.

Employees



The number of new homes sold grew by 3.1 percent in April and by 0.9 percent in the twelve months ended in April. The supply of new homes for sale decreased by 1.2 percent, and was 14 percent lower than in April last year. The decrease in the supply of homes continues to support an increase in prices of homes, at least in the near term.



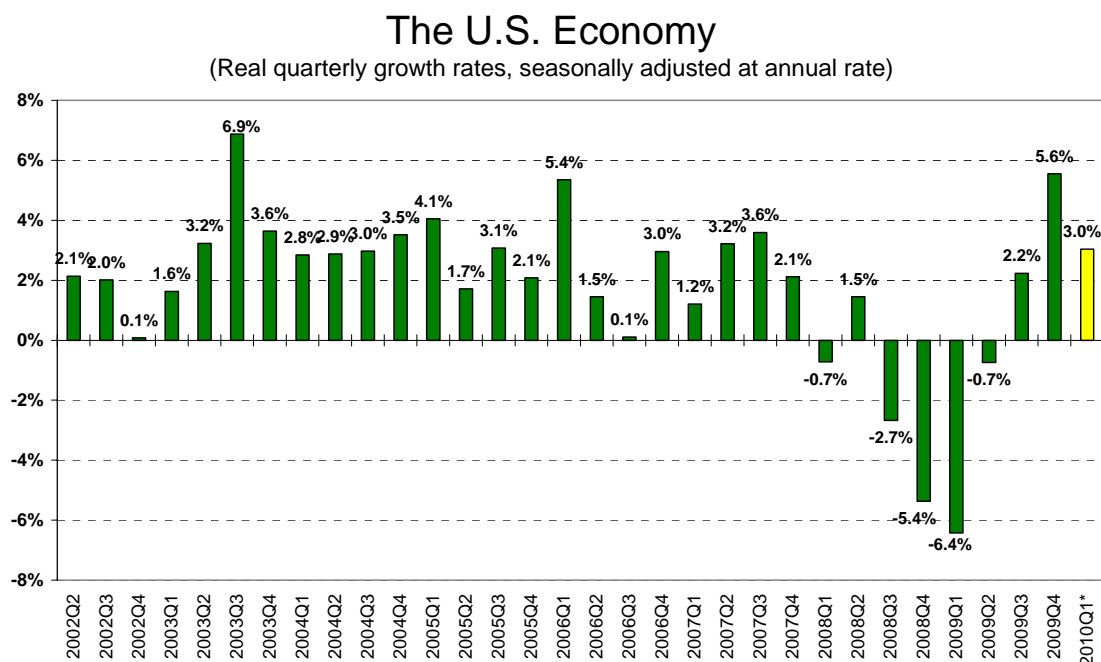
The number of construction starts in the first quarter increased by 2.5 percent in comparison to the preceding quarter and by 11 percent year-on-year.

Israel has been transferred from the developing countries' index to the developed countries' index by MSCI, in an expression of confidence in the Israeli economy and capital market.

The Knesset has approved the new fiscal rule for government expenditures. According to this rule, the real increase in spending in the government budget from year to year will be calculated by dividing the Maastricht Treaty debt-to-GDP ratio of 60 percent by the current ratio of debt to GDP in Israel (approximately 80%), and multiplying the result by the average growth rate of the economy in the last ten years (3.5 percent). The outcome is a real increase in expenditures of 2.6 percent each year in 2011-2012.

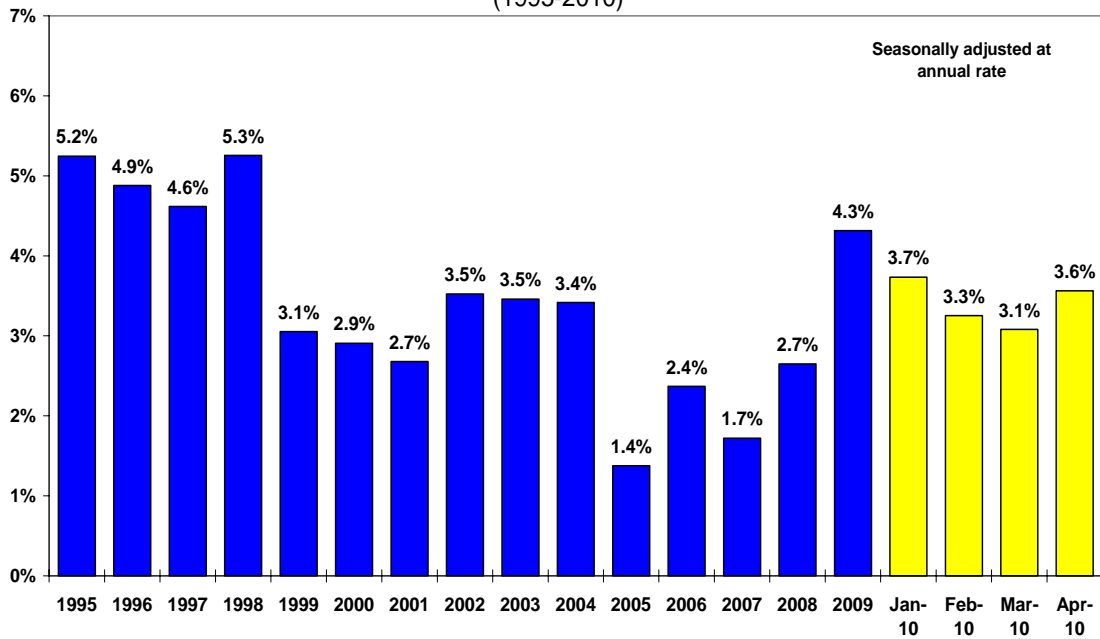
United States

GDP data for the first quarter of 2010 were revised downward slightly. According to the latest estimate, GDP grew at an annualized rate of only 3.0 percent.



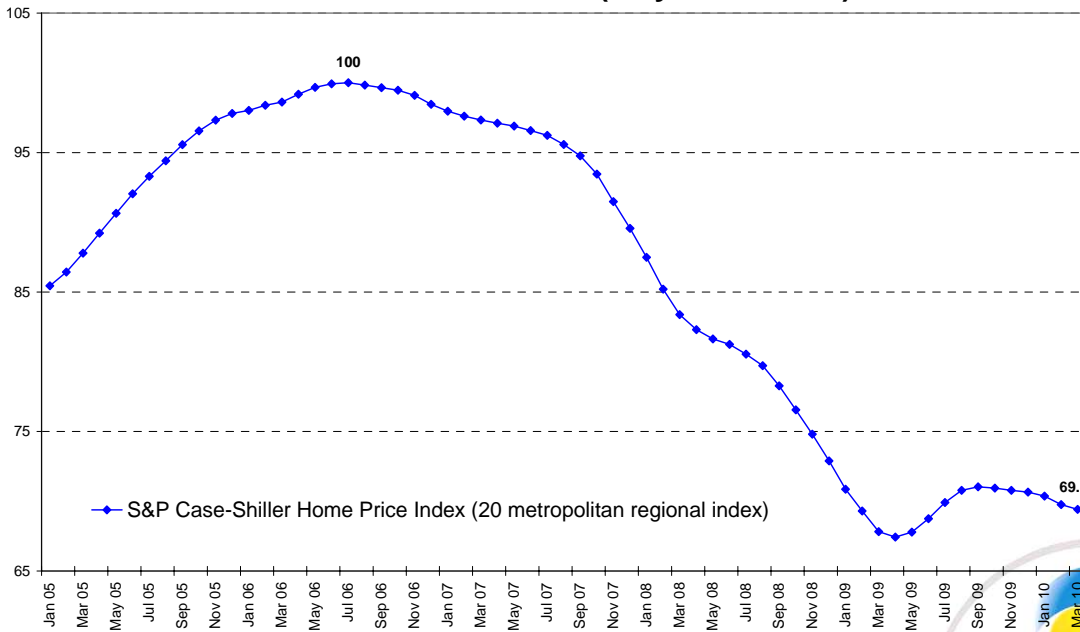
Real consumption remained unchanged in April, versus a rapid increase of 0.5 percent in each of the preceding two months. The rate of savings grew to 3.6 percent, but remained low compared to the average in 2009 (4.3 percent). Core private consumption prices (the core PCE deflator) rose by 0.1 percent in April, as in the preceding month. These data point to a slowdown in growth and in inflation, and have pushed the increase in the interest rate farther away.

US - Personal saving as a percentage of disposable personal income (1995-2010)



The Case-Shiller 20-city home price index fell by 0.5 percent in April; a more moderate decrease was expected. Prices of homes are 31 percent lower than the peak of July 2006.

U.S. Home Price Index (July 2006 = 100)



Our forecast of cumulative changes in price indices due to be published during the coming three months

Forecast change, April 2010 to July 2010

Consumer Prices Index (CPI)	Housing component in the CPI (mainly rent prices)	Prices of Owner-Occupied Dwellings	Price Index of Inputs in Residential Building	Wholesale Price Index of Manufacturing (excl. Fuel)
1.2%	3.2%	4.4%	1.3%	1.3%

Important Announcements in the Coming Week

- The ISM manufacturing sector index will be published in the United States on Tuesday, June 1, and unemployment data will be published in the euro zone.
- The ISM services sector index will be published in the United States on Thursday, June 3, and data on retail sales will be published in the euro zone.
- The employment report will be published in the United States, and updated growth data for the first quarter will be published in the euro zone, on Friday, June 4.
- Israel's Central Bureau of Statistics will publish data on employee positions and average wages on Monday, June 7.

This review is posted online at www.harel-finance.co.il/macro in Hebrew

and at <http://www.harel-group.com/finance.html> in English.

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